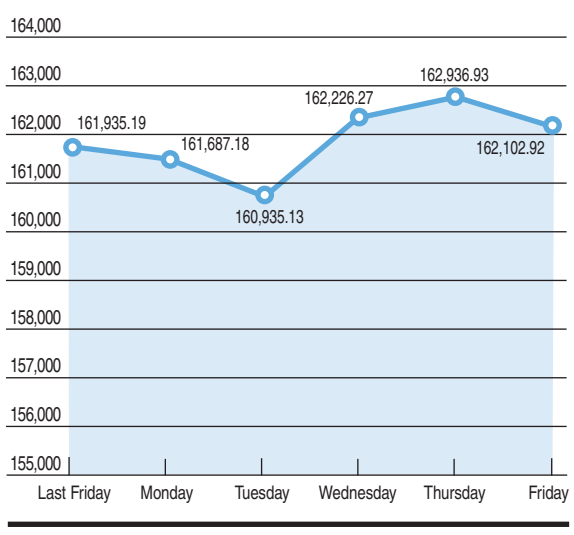
FINANCE

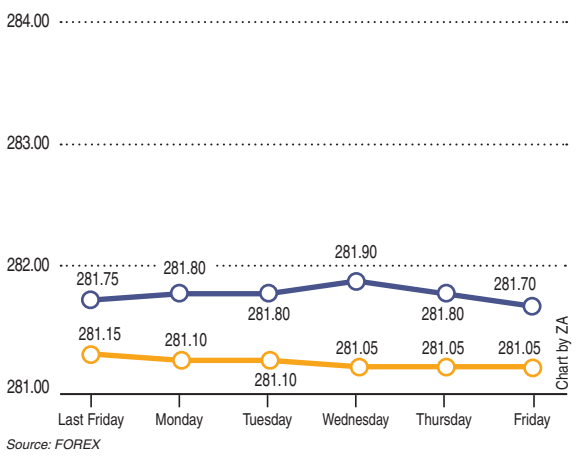
KSE 100-share index fluctuations



Source: PSX Chart by Mohammad Zeeshan Ali Khan

Rupee report

Weekly rupee-dollar parity



Source: FOREX

Why FDI bypasses Pakistan

Despite immense potential, governance, policy and procedural flaws that are difficult to navigate create barriers for foreign investors

By Mohiuddin Aazim

Net foreign direct investment (FDI) into Pakistan remains stubbornly low despite the country's sizable market, strategic location, and considerable investment potential.

According to the State Bank of Pakistan, net FDI during July–October 2025 fell to $747.7 million — a sharp 26 per cent decline from $1.01 billion in the same period last year. This downturn reflects more than temporary headwinds; it highlights deep structural impediments that continue to divert long-term foreign capital away from Pakistan.

Political volatility and policy inconsistency remain the biggest deterrents. Large investors — particularly those in real estate, agribusiness, manufacturing, and logistics — depend on predictable policy environments and multi-year visibility. Yet Pakistan's landscape is marked by abrupt changes in taxation, inconsistent incentives across federal and provincial levels, and recurring uncertainty associated with government transitions.

Regulatory complexity adds another layer of friction. Pakistan's approval processes are multilayered and fragmented, requiring foreign investors to navigate federal, provincial, and municipal bureaucracies. Procedures that take weeks in competing economies routinely take months — or even years — in Pakistan. Investors repeatedly cite slow approvals for land acquisition, opaque construction permitting, inconsistent industrial licensing rules, and unpredictable provincial regulations.

These delays inflate transaction costs and raise risk perception, especially when regional competitors such as Vietnam, Bangladesh, and the United Arab Emirates offer streamlined one-window systems that Pakistan has yet to operationalise.

Land governance represents one of the most serious structural weaknesses. Pakistan lacks a unified digital land registry, reliable record-keeping, and efficient dispute-resolution systems. Overlapping claims, unclear titles, stay orders, and slow-moving courts keep investors on edge, particularly in real estate, agritech, warehousing, and logistics. For foreign firms, uncertainty over land ownership is not merely an inconvenience; it is a deal-breaker.

Last month, during the visit of Prince Mansour Bin Muhammad Al Saud, the Association of Builders and Developers and the Saudi-Pak Business Council signed a Memorandum of Understanding to encourage Saudi investment in our real estate and construction sector.

It is yet to be seen whether the recent drive to demolish illegal and dangerous construction and recover land from land grabbers in Karachi could pave the way for Saudi investors keen to partner on projects where land has a clear title and is free of encroachments.

Moreover, Pakistan's agricultural potential is immense, yet structural inefficiencies deter global agribusiness companies from investing. Post-harvest losses account for at least one-fourth of the crops due to inadequate cold storage, outdated transport networks, poor handling practices, and a lack of modern logistics.

Energy remains another major bottleneck. Pakistan's long-standing electricity constraints — high tariffs, unreliable supply, and legacy contractual obligations — continue to hurt industrial competitiveness.

Even after recent reductions, industrial tariffs remain high. Expensive and inconsistent power erodes profit margins and discourages manufacturing-led FDI, pushing Pakistan further behind regional competitors like Bangladesh and Vietnam.

Skills and productivity gaps compound the challenge. Pakistan's workforce is large but insufficiently prepared for modern industrial and agricultural systems. Weak technical training, outdated vocational curricula, and limited industry-academia linkages prevent foreign technologies from delivering optimal returns.

Structural issues in key sectors further discourage investment. On the one hand, agriculture suffers from fragmented landholdings, resistance to corporate farming, inefficient water usage, outdated seed varieties, and weak extension services. On the other hand, real estate faces speculative pricing, inconsistent zoning regulations, poor building standards, and unreliable municipal enforcement. These weaknesses shrink the universe of credible, scalable investment opportunities.

Pakistan also struggles to retain investors once they arrive. Foreign firms often report inadequate institutional support, slow dispute resolution, partnership frictions, and day-to-day bureaucratic hurdles. This weakens reinvestment flows — one of the strongest indicators of a healthy investment climate.

Reversing all this requires a holistic reform agenda — complicated but not impossible under Pakistan's current hybrid governance model, apparently institutionalised through the 27th amendment. The key question is whether this structure can deliver the necessary reforms.

Policy consistency and long-term economic direction are central. The hybrid setup, with its centralised decision-making, theoretically allows clearer economic coordination and the ability to pursue multi-year roadmaps. Yet this civil-military hybrid system may remain vulnerable to legitimacy constraints, shifting alliances, political storms and backstage negotiations that can disrupt policy continuity.

Digital land governance and judicial strengthening are equally critical. The state's institutional machinery — especially where strong digital systems exist — could accelerate long-delayed land reforms. Yet entrenched provincial elites, powerful real-estate lobbies, and politicised bureaucracies remain major barriers even to a hybrid regime. Judicial reforms, meanwhile, require autonomy rather than centralisation — an area where a hybrid structure may fall short.

Finally, skill development could benefit from central coordination through the National Vocational and Technical Training Commission and military-run technical institutions. But education remains a provincial subject, and the constitutional attempt to bring it under federal control for this purpose is not so easy, given the provinces' concerns and reservations. ■

A complex investment puzzle

What may look like growth in rupees often translates into stagnation or decline in dollars as MNCs assess markets in dollar terms

By M. Abdul Aleem

Pakistan's economy appears to be moving towards a more stable footing. Inflation has notably eased since the peak of 38 per cent in 2023, the exchange rate has steadied, and the government's engagement with international financial institutions has reassured many observers that the worst of the macroeconomic turbulence may be behind us.

According to the Overseas Investors Chamber of Commerce and Industry's (OICCI) Perception and Investment Survey 2025, over 70pc of foreign investors are willing to recommend Pakistan for future foreign direct investment (FDI), a sign of renewed confidence in the country's economic potential with the country's risk profile also improving where high-risk perception has fallen from 54pc to 44pc, and medium-risk perception has risen to 51pc.

Yet, despite this apparent improvement, investment, both domestic and foreign, continues to lag, particularly when Pakistan should be attracting at least 3pc of GDP in FDI annually to support sustainable growth, industrial expansion, and long-term economic resilience.

So, why are investors still hesitant? According to OICCI's latest Perception and Investment Survey, 82pc of investors believe that negative perceptions of Pakistan significantly influence investment decisions. Unfortunately, the country's image as an investment destination continues to suffer from recurring episodes of uncertainty.

Each time a negative headline surfaces, such as the IMF seeking clarity over an $11 billion trade data gap, the controversy surrounding K-Electric's revised tariff decision, or geopolitical uncertainty, it unnecessarily affects investor confidence and undermines the credibility painstakingly built through economic reforms.

For international investors, such developments are major red flags. They raise doubts not only about governance but also about transparency and data reliability. In today's interconnected world, perceptions can spread quickly and influence decisions far beyond our borders. To address this challenge, the government must now complement economic reforms with a structured, proactive global communication strategy to improve Pakistan's image.

The recent exit of some multinational companies (MNCs) is a case in point. These departures sparked debates in many circles, but they should not come as a surprise. MNCs do not make such decisions overnight. Their strategies are informed by long-term analyses, performance trends, and country risk assessments. The sharp currency depreciation during 2022–23, following several earlier devaluations, has significantly eroded Pakistan's market size in dollar terms.

To put it simply, what may look like growth in rupees often translates into stagnation or decline in dollars as MNCs assess markets in dollar terms.

When combined with other concerns such as policy inconsistency, heavy taxation, and complex regulatory frameworks, the decision to continue operations becomes decreasingly attractive.

In addition, international investors evaluate broader indicators: where the country stands on key international indices, such as the B-Ready index, how predictable its tax and regulatory systems are, and whether intellectual property rights are effectively protected. Unfortunately, Pakistan's performance in these areas remains below expectations. For investors who plan decades ahead, policy unpredictability is among the biggest deterrents.

None of this is to deny that the government has made genuine efforts to improve the business environment. Initiatives such as the Special Investment Facilitation Council (SIFC), fiscal reforms, and efforts to digitise regulatory processes are steps in the right direction.

However, the challenge lies in implementation and continuity. Policies must remain consistent beyond political cycles, and decisions should not fluctuate with changing circumstances or leadership.

Taxation policies and rates must be revisited to align with Pakistan's investment ambitions and regional competitiveness. We are encouraged by the recent print media statement outlining the government's vision to rationalise income tax rates, improve the ease of doing business, and position Pakistan as an industrial hub driven by job creation, export enhancement, and import substitution.

However, this vision cannot be realised without addressing long-standing distortions that are actively discouraging investment. A key example is the refinery sector, where unresolved taxation issues, particularly the inability to claim input tax adjustments because petroleum products are not treated as taxable supplies, have stalled projects worth billions of dollars.

There also needs to be a deliberate move away from excessive regulatory controls towards a more market-driven environment. The pharmaceutical sector is a clear example: years of over-regulation constrained its growth, yet the recent steps taken under the SIFC to ease pricing controls have shown how even limited deregulation can restore stability and improve sector performance.

This experience reinforces a broader lesson: when the government steps back from unnecessary oversight and focuses instead on enabling fair competition, both local and foreign investors gain the confidence to expand, innovate, and contribute more meaningfully to the economy.

The path forward is clear but requires discipline, policy consistency, institutional strengthening, and a credible commitment to reforms. Long-term stability cannot be achieved through ad hoc measures; it requires sustained governance and predictable policy frameworks.

Pakistan's regional trade remains severely constrained, largely due to geopolitical tensions and difficult relations with some neighbouring countries. Despite being situated at the crossroads of South Asia, Central Asia, and the Middle East, one of the world's most strategically valuable trade corridors, Pakistan is unable to fully benefit from its geography.

Hostile or strained ties with key neighbours have restricted market access, disrupted trade routes, and limited the flow of goods across borders. As a result, Pakistan's share of regional trade remains among the lowest in Asia, depriving the economy of billions of dollars in potential exports, scale efficiencies, and supply-chain integration.

Having said that, Pakistan has all the ingredients for success. A young and dynamic population, a growing consumer base, and a strategic location at the crossroads of major trade routes. What it needs is the confidence of its investors, both local and international. That confidence will come not through promises, but through actions that demonstrate reliability, transparency, and fairness. ■

The writer is Secretary General/Chief Executive, Overseas Investors Chamber of Commerce and Industry

AGRICULTURE

Another year, another cane crisis

Farmers are disappointed about the delay in the crushing season amid the current lack of a sugarcane price

By Mohammad Hussain Khan

While the Sindh government has recently announced its intent to procure wheat for the 2025-26 season, it seemed indecisive about fixing sugarcane's rate, apparently in view of the International Monetary Fund's (IMF) loan programme conditions. The IMF calls for improving the private-sector business environment by removing state-created distortions, ensuring a level playing field, and streamlining subsidies.

The date for the commencement of sugarcane crushing, however, had been notified by the Sindh agriculture department as November 15. However, reports indicated that several mills had not fired their boilers until November 21. "There are no indications as to what price the mills are going to offer to farmers," said Zubair Talpur, Sindh Abadgar Ittehad (SAI) President. His sugarcane fields are located in the Umerkot district.

The government didn't fix sugarcane prices last year. It appears to be in a fix regarding notifying the indicative price of sugarcane, amid farmers' growing expectations that, since the wheat support price is likely to be announced, sugarcane's rate should also be notified. The government has argued that the wheat support price will be fixed to support farmers and domestic wheat cultivation, thereby lessening reliance on grain imports.

Sindh Chamber of Agriculture (SCA) senior vice president Nabi Bux Sathio has even approached the IMF by way of email, addressed to the IMF's country head stationed in Islamabad. Mr Sathio has drawn the institution's attention towards the issues of sugarcane and its producers. He has also requested clarification on whether the IMF has, in fact, restrained federal and provincial governments from fixing sugarcane prices.

Sugarcane is grown on approximately 790,000 acres in Sindh. The very land was also brought under wheat cultivation by growers, which is why farmers contend that mills should start crushing cane so that its procurement by mills picks up pace. Wheat sowing would also be delayed to a considerable extent if sugarcane harvesting remained pending.

Though the Sindh agriculture department convened a meeting of the Sugarcane Control Board on November 4, no representatives from the Pakistan Sugar Mills Association attended, and the meeting was adjourned without taking any decision regarding a crushing rate or commencement date. It wasn't until November 19, when the provincial cabinet met, that November 15 was approved as the start date for cane crushing.

> The Sindh Agriculture Research department, in view of the increase in input costs, has recommended a price of Rs545 per 40kg

Farmers' bodies have been demanding a price of Rs600 per 40kg for sugarcane in view of trends surrounding sugar's retail price in the open market. Mr Sathio mentioned in his email to the IMF chief that by March 2025, the ex-mill rate of sugar started showing an upward trend, and currently the retail price stands at Rs225-Rs230 per kg in major cities across Pakistan. Therefore, one could easily see that the ex-mill price would hover around Rs200 per kg.

The Sindh Agriculture Research department has calculated sugarcane costs at Rs321,000 an acre against last year's Rs295,000 — up by Rs26,000. The department, in view of the increase in farmers' input costs, has recommended to the Sugarcane Control Board a price of Rs545 per 40kg. The department's Director General of Research, Dr Mazhar Keerio, said that the cane crop remained, by and large, healthy, with growers in Tando Mohammad Khan and Badin districts complaining of weak crops due to the unavailability of irrigation water.

Moreover, sugar millers are a powerful stakeholder in the sugarcane sector, and that's why it is described as a 'political crop and industry' in the country. From the farmers' viewpoint, sugar factory owners have historically been comfortable dictating their terms at the governmental level regarding price fixation, thus cornering farmers.

The size of sugar factories has grown considerably in the country. Sugarcane — a high delta crop — has encroached upon rich cotton zones in Punjab and Sindh. It is in Rahim Yar Khan, in Punjab's southern part, with six factories, and in Ghotki, Sindh, on the left bank of the Indus River, where such growth is easily noticeable.

This has left the cotton crop struggling to regain its lost ground. Thirty-eight sugar mills exist in Sindh, and one more is likely to start crushing this season in upper Sindh, bringing the total to 39, provided it begins its trial.

As it stands, the Sugar Factories Control Act (Sindh Amendment) Act 2009 binds sugar factories to commence crushing no later than November 30. In the pre-amended Act, the law's clause 2(h) calls for the 'start' of the crushing season to begin on October 1 in any year and end on June 30.

Now, taking advantage of this legal provision, the millers feel free to delay the crushing season until mid-December, with no one having the courage to question them for the belated commencement of crushing. As growers rush to free their farmland from sugarcane to plant wheat on time, they agree to the rates offered by millers. Wheat sowing in lower Sindh, even otherwise, begins in November and in some pockets by late October.

Since the timely availability of irrigation water for wheat cultivation remains an impediment to growers in many areas, they tend to avoid holding sugarcane crops in the field for an extended period for want of a higher price. Still, they hope that crushing will begin by the fourth week of November, as it is a legal obligation on the millers as well. ■